

UNITED STATES SENATOR • IOWA

# CHUCK GRASSLEY

RANKING MEMBER • SENATE COMMITTEE ON FINANCE

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<http://grassley.senate.gov>  
[press\\_office@grassley.senate.gov](mailto:press_office@grassley.senate.gov)

Contact: Jill Kozeny, 202/224-1308  
Jill Gerber, 202/224-6522

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Grassley Investigates IRS Employees' Pursuit of Bogus Tax Credit

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, is asking the Internal Revenue Service to account for IRS employees' pursuit of a non-existent tax credit for slave reparations.

According to agency and media reports, the IRS erroneously paid out more \$30 million in 2000 and 2001 for the non-existent credit. One IRS employee is said to be under investigation for allegedly helping to approve tax returns claiming the credit, while at least 12 current and former IRS employees, all low-level workers, are said to have applied to receive such a credit.

Grassley has written to Internal Revenue Commissioner Charles Rossotti and David Williams, Inspector General at the Treasury Inspector General for Tax Administration, requesting information on the status of the IRS employees who applied for the credit. The Finance Committee has been focusing on the tens of billions of dollars lost to tax scams.

The text of Grassley's letter follows.

April 12, 2002

The Honorable Charles Rossotti  
Commissioner  
Internal Revenue Service  
Washington, D.C. 20224

The Honorable David C. Williams  
Inspector General  
Treasury Inspector General for Tax Administration  
Washington, D.C. 20005

Dear Sirs:

I want to thank you for your informed testimony yesterday at the Senate Finance Committee's hearing on tax schemes, scams and cons. Unfortunately, time did not allow me to ask each of you a question of interest.

On March 28, 2002, the Treasury Inspector General for Tax Administration (TIGTA) completed a report on the slave reparations tax scam. According to the TIGTA report, this scam has encouraged thousands of taxpayers to file specious tax claims encouraging them to claim a credit

payable to the descendants of slaves. The scam states that the credit is for the cash equivalent of 40 acres and a mule (approximately (\$42,200).

The TIGTA report highlighted that one current Internal Revenue Service (IRS) employee had claimed this credit on his or her tax return. In addition, another IRS employee may have knowingly honored a claim made by another taxpayer for the slave reparation credit. Finally, eight former IRS employees also applied for this credit.

Disappointing as this news is, I was stunned to learn that in discussions with my Finance Committee staff, TIGTA stated that the findings have been updated and that three additional IRS employees for a total of four IRS employees have apparently filed tax returns claiming the slave reparation credit (although none actually received the credit). Yesterday's hearing highlighted the magnitude of the tax scheme problem overall – with a variety of different scams and cons. The fact that today we learn that we have IRS employees also engaged in tax scams as well shows how widespread it is.

I ask that you please provide the Committee with the current status of these four employees (setting aside the one employee cited for possibly honoring the claim of a taxpayer) – if they are still working at IRS, on paid administrative leave, unpaid leave or have been terminated. IRS must lead by example and show that zero tolerance for these tax schemes starts at home.

It would appear that the conduct by the four employees who filed for the credit, would invoke Section 1203(b)(9) of the *IRS Restructuring and Reform Act of 1998*, which requires termination after a final administrative or judicial determination when an employee “willfully understate[s] federal tax liability, unless such understatement is due to reasonable cause and not willful neglect.” I recognize that the TIGTA report has been referred to TIGTA Office of Investigations for further review – I would appreciate confirmation that such a review is being done; the expected time of the completion of the review; and whether the actions of these employees, as stated by the TIGTA report, comes under 1203(b)(9).

Mr. Commissioner, I appreciate your quick response to my letter regarding paid administrative leave as well as your commitment to making policy changes in this area. I don't know if these four IRS employees are on paid administrative leave. However, if they are, I believe this may be a useful test of your new policy. As you know, I have previously expressed my frustration with IRS employees indicted, convicted or sentenced for significant crimes yet remaining on the federal payroll while sitting at home. I recognize that in some cases, the IRS has sought to remove individuals from the federal payroll but have been prevented by other factors, including the request of a U.S. Attorney or other law enforcement official.

Thank you for your time and assistance on this matter.

Cordially yours,

Charles E. Grassley  
Ranking Member

cc: Chairman Baucus